

ORIGINAL

NEW APPLICATION



0000169008

BEFORE THE ARIZONA CORPORATIC

COMMISSIONERS

DOUG LITTLE - CHAIRMAN
BOB STUMP
BOB BURNS
TOM FORESE
ANDY TOBIN

Arizona Corporation Commission
DOCKETED

MAR 08 2016

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AZ CORP COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION OF
MIDVALE TELEPHONE COMPANY, INC. FOR
THE ESTABLISHMENT OF JUST AND
REASONABLE RATES FOR ITS YOUNG
EXCHANGE AND FOR A DETERMINATION
OF THE FAIR VALUE OF ITS UTILITY
PROPERTY IN ITS YOUNG EXCHANGE.

DOCKET NO. T-20741A-16-0088

RATE APPLICATION

Midvale Telephone Company, Inc. ("Midvale") requests that the Commission authorize a rate increase in its residential monthly access line rates for its Young Exchange. Midvale requests this rate increase in order to meet the rate floor requirements established by the FCC. In support of this application, Midvale states:

Overview and Description of Midvale

1. This rate application is made pursuant to Article 15 § 3 of the Arizona Constitution, A.R.S. §§ 40-250 40-367, and A.A.C. R14-2-103.
2. Midvale is an Idaho corporation duly authorized to conduct business in Arizona.
3. Midvale specializes in serving rural communities. Midvale provides telecommunications services to approximately 1,260 customers in Arizona, serving the Arizona communities of Millsite, Young, Granite Mountain, Silverbell and Cascabel. Midvale also serves 1,310 customers in six rural communities in Idaho. Midvale holds a CC&N from the Commission to provide local exchange and toll access services to specified parts of Arizona under Decision Nos. 58048 (October 29, 1992), 58763 (Sept. 1, 1994), 61095 (August 26, 1998), 66510 (Nov. 10, 2003), 67746 (April 11, 2005), 70743 (Feb. 6, 2009), 72728 (Jan. 6, 2012), 74487 (May 23, 2014), 75317 (Oct. 27, 2015) and 75311 (Oct. 27, 2015).
4. The issued and outstanding shares of Midvale are owned by Midvale Telephone Exchange, Inc., which in turn is owned by MTE's employees through an Employee Stock

1 Ownership Plan (ESOP).

2 5. Midvale's monthly Access Line rates¹ are:

3

4 Exchange	Residential	Business	Pay
5 Cascabel	\$22.65	\$30.00	\$21.00
6 Young	\$18.65	\$30.00	\$21.00
7 Silver Bell	\$24.00	\$30.00	\$21.00
8 Granite Mountain	\$24.00	\$30.00	\$21.00
9 Mill Site	\$24.00	\$30.00	\$21.00

10 **FCC Rate Floor Requirements**

11 6. On November 18, 2011, the Federal Communications Commission ("FCC") issued
12 the *USF/ICC Transformation Order*.² The *USF/ICC Transformation Order* transitions the
13 previous federal universal service programs and most inter-carrier compensation systems into a
14 new Connect America Fund ("CAF"). The FCC's press release characterized the *USF/ICC*
15 *Transformation Order* as "the most significant policy step ever taken to connect all Americans to
16 broadband."

17 7. The *USF/ICC Transformation Order* will reduce inter-carrier compensation rates
18 to zero by July 1, 2020, for rate-of-return companies, with limited recovery from customers and
19 partial recovery from the CAF. The recovery from the CAF will phase out over time at 5%

20 ¹ These rates are specified in Midvale's Arizona Corporation Commission Tariff Number 2,
21 Original Sheet Number 2, issued in connection with Decision No. 72728 in Docket No. T-
20741A-10-0207.

22 ² See *Connect America Fund; A National Broadband Plan for Our Future; Establishing Just and*
23 *Reasonable Rates for Local Exchange Carriers; High-Cost Universal Service Support;*
24 *Developing a Unified Intercarrier Compensation Regime; Federal-State Joint Board on*
25 *Universal Service; Lifeline and Link-Up; Universal Service Reform—Mobility Fund*; WC Docket
26 Nos. 10-90, 07-135, 05-337, 03-109, CC Docket Nos. 01-92, 96-45, GN Docket No. 09-51, WT
27 Docket No. 10-208, Report and Order and Further Notice of Proposed Rulemaking, 26 FCC Rcd
17663, 17694, 17751 (2011), copy available at
https://apps.fcc.gov/edocs_public/attachmatch/FCC-11-161A1.pdf. (the "USF/ICC
Transformation Order"). The *USF/ICC Transformation Order* was affirmed on appeal in *In re*
FCC 11-161 (*Direct Communications Cedar Valley, LLC et al. v. FCC*), 753 F.3d 1015, 1104
(10th Cir. 2014).

1 annually.

2 8. Midvale is a small rate-of-return regulated Incumbent Local Exchange Carrier
3 (“ILEC”). The *USF/ICC Transformation Order* adds new rules that will reduce federal high-cost
4 loop support to carriers (such as rural ILECS like Midvale) by the amount their flat rate
5 residential local service rates falls below a specified annual urban rate floor. 41 C.F.R. § 54.318.

6 9. Federal and state support funding are vital to providing robust telecommunications
7 services to rural Arizona areas, that is, “high cost” areas. To maintain Midvale’s access to federal
8 high cost loop support, Midvale and other rural ILECs must increase local rates to the FCC-
9 mandated residential rate floors. Otherwise, the amount of federal support funds will be reduced
10 on a dollar-for-dollar basis for each customer by the difference between the existing local rate and
11 the new rate floor. If local rates are not increased, the new FCC rules will reduce federal funds
12 coming to the State of Arizona, and negatively impact customers living in rural, high-cost areas in
13 Arizona.

14 10. Midvale serves rural areas with low customer density. Midvale is thus dependent
15 on federal high-cost loop support mechanisms. Therefore, it is important that the Commission
16 allow Midvale to increase local rates to at least the FCC rate floor in order to maintain Midvale’s
17 existing federal high-cost loop support.

18 11. The rate floor includes the monthly flat fee for voice service, together with any
19 state subscriber line charges, state universal service fees, and mandatory extended area service
20 charges. The FCC’s order established local residential rate floors of \$10.00 as of June 1, 2012,
21 and \$14.00 as of June 1, 2013, with the floor thereafter being determined annually by the FCC’s
22 Wireline Competition Bureau, based on a nationwide average.

23 12. On April 16, 2015, the FCC’s Wireline Competition Bureau announced the 2015
24 rate floor for rate-of-return carriers like Midvale that receive federal high cost loop support. The
25 rate floor for 2015 was set at \$21.22,³ subject to the phase-in described below.

26 13. However, the rate floor is being phased in, so that the dollar-for-dollar reductions

27
28 ³ FCC Wireline Competition Bureau, WC Docket No. 10-90, DA 15-470, rel. April 16, 2015,
FCC Public Notice available at: https://apps.fcc.gov/edocs_public/attachmatch/DA-15-470A1.pdf

1 in federal high cost loop support will occur only if the local rates are below the following
2 thresholds⁴:

Beginning Date	End Date	Reflecting rates as of	Phase In Rate
July 1, 2014	Jan 1, 2015		\$14.00
Jan. 2, 2015	June 30, 2016	Dec. 1, 2014	\$16.00
July 1, 2016	June 30, 2017	June 1, 2016	\$18.00
July 1, 2017	June 30, 2018	June 1, 2017	\$20.00
July 1, 2018	N/A	June 1, 2018	Full rate floor*

10 * Reset annually, currently \$21.22.

11 Requested Rate Increase

12 14. The residential voice rates for Midvale's Young Exchange are currently \$18.65 per
13 month. This is below the full rate floor (\$21.22 for 2015). While it is less than the phase in
14 minimum (\$18.00 beginning in July 2016), the phase in minimum will increase to \$20.00 the next
15 year, and the phase-in will expire the following year.

16 15. To avoid the need for multiple rate filings, Midvale requests that the residential
17 rate for the Young Exchange be increased to \$20.00 effective June 1, 2017, and to \$21.22
18 effective June 1, 2018.

19 Process

20 16. The Commission has previously approved similar requests in a streamlined
21 process, recognizing the benefits of retaining federal funding for carriers serving Arizona's rural
22 communities. See e.g. *Arizona Telephone Company, Inc.*, Decision No. 74771 (Oct. 24, 2014);
23 *Table Top Telephone Company, Inc.*, Decision No. 74830 (Nov. 13, 2014); *Valley Telephone*
24 *Cooperative, Inc.*, Decision No. 74773 (Oct. 24, 2014); *Copper Valley Telephone, Inc.*, Decision

26
27 ⁴ See *Connect America Fund et al.*, WC Docket No. 10-90 et al., Report and Order, Declaratory
28 Ruling, Order, Memorandum Opinion and Order, Seventh Order on Reconsideration, and Further
Notice of Proposed Rulemaking, FCC 14-54, 29 FCC Rcd 7051, 7077-82, ¶¶ 77-86 (rel. June 10,
2014)) (waiving full impact of local rate floor over a four-year period).

1 No. 74772 (Oct. 24, 2014); *South Central Utah Telephone Association, Inc.*, Decision No. 74775
2 (Oct. 24, 2014).

3 17. In those cases, the Commission Staff and the carriers developed a streamlined set
4 of schedules to file to support the rate increases. Attached are schedules in this streamlined
5 format.

6 18. Midvale will provide customer notice in accordance with a Procedural Order to be
7 issued in this docket.

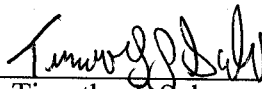
8 19. Midvale requests that a Procedural Order be issued specifying the public notice
9 requirements, scheduling a public hearing in this matter, and establishing procedural deadlines.

10 WHEREFORE, Midvale requests that the Commission approve a rate increase as
11 described herein.

12
13 RESPECTFULLY SUBMITTED this 8th day of March, 2016.

14
15 SNELL & WILMER L.L.P.

16
17 By



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19
20 Attorney for Midvale Telephone Company
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1 Original and thirteen copies of the foregoing
2 filed this 8th day of March, 2016, with:

3 Docket Control
4 Arizona Corporation Commission
5 1200 West Washington Street
6 Phoenix, Arizona 85007

7 Copy of the foregoing hand-delivered/mailed
8 this 8th day of March, 2016, to:

9 Dwight D. Nodes
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Midvale Telephone Exchange - Arizona (Young Exchange)
as of December 31, 2014

REGULATED 2014 RESULTS OF OPERATIONS
REFLECTS CHANGES EFFECTIVE WITH ARC AND CAF IMPLEMENTATION

	2014 PER BOOK OPERATIONS	PART 64 ADJUSTMENTS	2014 TOTAL TELEPHONE OPERATIONS	STUDY ADJUSTMENTS	REF	ADJUSTED 2014 RESULTS	INTRASTATE
			(a)	(b)	(c)	(d)	(e)
1 Local	110,936	-	110,936	-	-	110,936	110,936
2 Universal Services Fund (USF-HCL) and Safety Net Additive (SNA)	695,623	-	695,623	-	-	695,623	695,623
3 Access Revenues	884,689	-	884,689	-	-	884,689	39,190
4 Billing & Collecting	-	-	-	-	-	-	-
5 Other Misc., Uncollectibles	21,455	(1,315)	20,140	-	-	20,140	20,140
6 Total Operating Revenues	1,712,704	(1,315)	1,711,389	-	-	1,711,389	865,890
7 Plant Specific Expenses	715,454	(1,483)	713,972	-	-	713,972	366,285
8 Plant Nonspecific Expenses	34,101	-	34,101	78	#1	34,179	11,239
9 Depreciation & Amortization Expenses	392,906	(469)	392,437	667	#2	393,103	229,028
10 Customer Operations Expenses	34,371	-	34,371	-	-	34,371	12,441
11 Corporate Operations Expenses	196,404	(348)	196,056	-	-	196,056	103,231
12 Other Operating Taxes and (Income)	64,227	(114)	64,113	-	-	64,113	24,672
13 Total Operating Expenses	1,437,464	(2,414)	1,435,050	744	744	1,435,794	693,644
14 OPERATING RETURN BEFORE TAXES	275,241	1,099	276,340	(744)	(744)	275,595	123,740
15 State Income Taxes (SIT) (4.1735%)	-	-	180,213	(117,001)	-	63,212	29,899
16 Federal Income Taxes (FIT) (34.41%)	-	-	6,916	1,084	-	8,000	3,784
17 Total Operating Income Taxes	-	-	187,129	(115,917)	(115,917)	71,212	33,682
18 Total Expenses and Income Taxes	1,437,464	(2,414)	1,622,179	(115,173)	(115,173)	1,507,006	779,680
19 Net Operating Income	275,241	1,099	89,211	115,173	115,173	204,383	86,210
20 Total Year-End Rate Base						2,627,455	1,703,428
21 Return on Rate Base (Ln 19/Ln 20)							5.06%
22 Estimated Revenue from Local Rate Increase							
23 State Income Taxes (SIT) (4.1735%)							9,995
24 Federal Income Taxes (FIT) (34.41%)							417
25 Increase in Net Operating Income							3,296
26 Net Operating Income After Increase (Ln 19 + Ln 25)							6,282
27 Return on Rate Base After Increase (Ln 26/Ln 20)							5.43%

ASSUMPTIONS

Used 2014 Cost Study run dated 7/14/2015 for Part 36 Separations
Separated results based upon frozen 2000 traffic factors
Separated results based upon 2014 financials. Interstate rules, adjusted for Part 64 activities
Working Capital included for all jurisdictions

Midvale Telephone Exchange - Arizona (Young Exchange)
 Estimated ICC Impact of FCC Order

Base Line of Eligible Recovery:

	Estimated Revenue		
	Total	Reduction	
Interstate SWA (Includes LSS)	214,743	(25,783)	Interstate
Intrastate Terminating Access	20,236	(2,430)	Intrastate Access
Recip Comp Revenue	-	-	Intrastate Local
Recip Comp Expense	-	-	Intrastate Local
Total Base of Eligible Recovery	234,979	(28,212)	

Midvale Telephone Exchange - Arizona (Young Exchange)
2014 Rate Base

	Total Company	Interstate	Intrastate
Plant in Service	5,897,788	2,253,647	3,644,141
Accumulated Depreciation	2,916,017	1,204,051	1,711,966
Net Plant in Service	2,981,771	1,049,596	1,932,175
Prop Held Future Telecom Use	7,104	2,715	4,389
Plant Under Construction	168,213	64,277	103,936
Material & Supplies	55,325	15,939	39,386
Deferred Income Taxes	(675,189)	(255,896)	(419,293)
Other Long Term Liabilities	-	-	-
Customer Deposits	28	11	17
Cash Working Capital	90,203	47,386	42,818
Rate Base	2,627,455	924,027	1,703,428

Midvale Telephone Exchange - Arizona (Young Exchange)**Adjustments to Revenues and Expenses**

Ref	Account	Description	Debit	Credit
1	6540	Access Expense	78	
	Exclude	NIS - Not In Study To identify the 2014 USAC Contribution		78
2	2230	Transmission Equipment	6,666	
	1406	AD - Nonregulated Investment	5,036	
	6560.23	Depreciation Expense - Transmission	667	
	1406	Nonregulated Investment		6,666
	3230	AD - Transmission Equipment		5,036
	Exclude	NIS - Not In Study To correct improper classification of ONT equipment		667
3	6620.8	TRS expense	1,373	
	6620.31	Customer Service Expense To reclass TRS expense		1,373

Midvale Telephone Exchange - Arizona (Young Exchange)

CALCULATION OF CASH WORKING CAPITAL (CWC)

	Balance
Plant Specific Operations Expenses (6110-6410)	713,972
Plant Non-Spec Op Exp Excl Depr & Amort (6510-6540)	34,179
Customer Operations Expenses (6610-6620)	34,371
Corporate Operations Expenses (6710-6720)	196,056
Contributions (7370)	-
Interest on Customer Deposits (7540)	-
Operating Taxes	251,242
Interest Expense (7500)	138,602
Total Annual Expense	1,368,421
Cash Working Capital Factor	0.065918
Cash Working Capital Base	90,203
Minimum Bank Balance	-
Working Cash Allowance	-
Total Cash Working Capital	90,203
	(24.06/365)

Midvale Telephone Exchange - Arizona
Proposed Rate Design
(Date) Average Units*

A	B	C	D	E	F	G	H	I	J
Service Description	Average Units**	Current Rates	Current Zone Charge	2014 Annual Revenues	Rates	Proposed Zone Charge	Revenues	Proposed Revenue	Proposed Change Percent
Basic Service									
Residence Within the Base Rate Areas (R1)	324	\$ 18.65	\$ -	\$ 72,530	\$ 21.22	\$ -	\$ 82,525	\$ 9,995	13.78%
Estimated Revenue from Local Rate Increase								\$ 9,995	

Notes:
*Average unites (Dates used) are used to capture seasonal fluctuations.
**No reduction made for line loss.

Residential Lines												
Year	Type	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
2013	R1	322	323	321	325	322	326	329	328	327	326	317
2013 Total		322	323	321	325	322	326	329	328	327	326	317
2014	R1	318	319	321	323	328	327	331	327	329	327	323
2014 Total		318	319	321	323	328	327	331	327	329	327	323
2015	R1	316	316	318	327	330	330	328	324	328	330	327
2015 Total		316	316	318	327	330	330	328	324	328	330	327